



## Labor Shortage: Opportunity or Crisis?

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The phenomenon of a labor shortage (migrant worker shortage) that has emerged in the Guangdong-Fujian area since 2003 has brought extensive attention from scholars and experts in China and abroad in recent years. It has generated great interest and heated discussion in academia and industry on the prospect and impact of its development. To analyze the causes of this phenomenon, there are several main reasons as stated in the following: first, the One Child policy China has adopted since late 1970s has had an effect on the change of population structure. As a result, the supply of young laborers is decreasing. A study conducted by the Chinese Social Science Institute in 2005 demonstrates that the annual labor supply appeared to decrease for the first time in 2004. It estimates by 2011 the labor supply will no longer increase, and the total annual labor supply will begin decreasing from 2021.

Second, in recent years the central and local governments emphasized the importance of agricultural production and rural development. Pro-agriculture policy and the slowdown of the growth in manufacturing and processing industry have encouraged a considerable number of migrant workers to return hometown and resume farming. In addition, the alleviation of residence control (the "hu kou" system) has also promoted the geographic and inter-industrial mobility of migrant workers as well as its frequency.

Third and most importantly, the stagnant and even decreasing wage level, high intensity of the pace of work and poor benefits in the Guangdong-Fujian region and the Pearl River Delta region forced a great number of migrant workers to leave for places that provide better labor treatment.

According to a report by the official Xinhua News Agency, the average monthly income of migrant workers in Fujian Province is approximately a mere ¥600 (\$75) currently. This amount is only 42% of non-migrant, or resident workers in Fujian. These migrant workers work more than 10 hours a day but rarely make more than ¥1,000 a month (\$125). Most of the medium-size and small non-state owned enterprises in Fujian Province pay salaries based on piecework. Workers cannot possibly complete required production quota within 8 hours. Hence, they have to work overtime in order to receive the compensation they should receive based on regular working time under the law. It is very common for workers to work 10-12 hours a day on average. Nonetheless, most factories use the piece-rate payment method as an excuse for not paying overtime compensation. In contrast, the Yangtze River Delta region has surpassed the Pearl River Delta region in wage levels and work conditions. The Yangtze River Delta region has produced a series of policies to protect migrant workers' rights, covering work injury insurance, minimum wage insurance, health insurance, etc., which has contributed to the geographic shift of migrant workers. Shanghai, which is located at the edge of the Yangtze River Delta region also mandates pensions.

China Labor Watch believes that the labor shortage phenomenon and the migration of laborers will have a positive impact on the overall improvement of wage standard and labor treatment of migrant workers. The decrease of production and profit in factories caused by labor shortage has forced the local governments in the Pearl River Delta region to amend labor policies and improve the treatment of workers. Among these changes, Zhongshan and Dongguan City of Guangdong Province raised their minimum wage standard from ¥450/month (\$56) to ¥574/month (\$72). Guangzhou City raised its minimum wage from ¥510 (\$64) to ¥684 (\$86) a month. Shenzhen expects to increase its minimum wage from ¥690 (\$86) to ¥800 (\$100) or ¥850 (\$106) a month.

Will wage increases and labor condition improvement of working conditions then, as some people worry, make factories less profitable or cause foreign investors to move production plants to Vietnam, Cambodia and other countries and regions with lower labor cost? China Labor Watch finds such argument unconvincing. First, labor cost is only one of many factors investors consider when calculating investment. Aside from labor cost, geographic location, transportation infrastructure, local politics, economic condition, social environment, cultural background, workers' education and skill level, etc. are all important elements in investors' consideration. Mere moderate wage raise (not to mention that the result has not yet sufficed the standard of a living wage) will not be a determining factor for losing investment advantage. On the contrary, under the current public pressure that demands companies take up greater social responsibility, reasonable and just labor conditions not only will not reduce an investment location's appeal to investors, but also will become a new "selling factor." Second, the increase of labor cost will drive companies to innovate technology and improve business model, so as to increase production efficiency and to adapt to market demands. This will in turn enhance the flexibility and competitiveness of companies. Therefore, the phenomenon of a labor shortage will not become a crisis for China's labor market. Instead, it should be an opportunity for strengthening social insurance protections for workers and moving from a labor-intense economic model to one that relies more on advanced technology.

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